

Food prices to rise, but by how much?

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Drought - Wisc.

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Those who speculate on the effects consumers will feel from the 1988 drought are convinced food prices will be higher in the next year.

But questions are wide open on how much prices will rise and when they'll hit market shelves and meat counters.

The price of food is the one area in which the drought will affect everyone.

Robert Parlett Jr., a Washington, D.C., food-price expert, who said late last year that food prices would increase 2 to 4 percent, has made a new projection to account for the drought.

Parlett, who is on the staff of the Economic Research Service in the U.S. Department of Agriculture, now predicts food prices will increase 3 to 5 percent.

When that food-price boost comes it will be measured as part of the Consumer Price

Index. Foods make up 16 percent of the CPI covering all items bought by consumers.

"The first principle of understanding food prices is that farm prices do not translate directly into food prices. There are things going on in between the farm and the market which will dampen the effect farm prices may have in boosting food prices," he said.

"When farmers start liquidating their animals in a drought they want to save on feed supplies. As more beef is put on the market, beef prices will decline," Parlett said.

The expected increase for food items is moderate, he said, and will start in the next few months and continue into 1989.

Assistant Secretary of Agriculture for Economics Ewen Wilson said, "The effects of such higher food prices on the overall rate of inflation would be negligible."

Parlett said all projections on the drought impact on food prices depend on how long the drought lasts. The newest projection will be updated July 20.

Parlett and Wilson challenged other analysts who predict up to a 12-percent increase in some food prices next year.

One reason farm prices alone make it difficult to boost total food prices is that the farm value of foods sold at retail has slipped to 25 percent of the food dollar spent by consumers.

In Wisconsin, the green pea crop is down substantially, but even if the price of canned peas or frozen peas should rise, Parlett said, it wouldn't mean much in the total food spending by consumers.

"I don't see any great run-up in prices of either canned peas or sweet corn," he said.

Parlett said food inflation that started soon would be offset by lower prices for beef.

That's because of the sharp rise in cattle marketings as state farmers culled cows from their herds to reduce the herd size and cut feed requirements.

In Wisconsin last week, the number of cattle being marketed suddenly slacked off and cow prices went up \$2 a hundred pounds.

Wisconsin is the eighth ranking state in cattle numbers with more than 4.2 million head. Because of the high annual cow slaughter Wisconsin supplies 10 percent of the hamburger used in the nation.

However, market people say that with all the attention on higher food prices as a result of the drought, consumers still could see some price increases even though the beef supply has been sharply increased.

Wilson said if current high prices for corn and soybeans continue there will be a reduction in cattle and hog numbers, but the meat price impact will not be felt until next year at the earliest.

A reduction of chicken broiler flocks, however, means prices could still jump this year.

The 4.1 billion bushels of corn (more than half a normal year's corn harvest) stored either by the government or the Farmer-Owned Reserve may be a major factor in holding down food prices.